



**OFFICE OF THE GOVERNOR**

**ROD BLAGOJEVICH - GOVERNOR**

# NEWS

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## **Governor Rod Blagojevich FY06 Budget Address February 16, 2005**

SPRINGFIELD – Mr. President, Mr. Speaker, distinguished guests, my fellow citizens

I am submitting a budget today that is balanced.

A budget that invests more money in our schools.

A budget that provides health care for more men, women and children.

A budget that funds new road projects, school construction, conservation, and environmental cleanups.

A budget that will create jobs.

A budget that helps the CTA.

A budget that does not raise the income tax or the sales tax.

A budget that continues the change and reform we've started over the last two years.

A budget, that I believe, sets the right priorities.

Over the last two years, we've dug ourselves out of the worst fiscal crisis in our state's history. We did it by bringing major structural changes to the way government works – \$3 billion in less spending outside of education and health care, twenty fewer agencies, and the smallest workforce in thirty years.

Governing Magazine recently described Illinois as "now undergoing one of the most dramatic reorganizations of any state government in recent years."

That's a good start.

But setting the right priorities can't just include more money for schools or health care or streamlining government or not raising taxes.

The right priorities have to take into account both today and tomorrow.

Right now, there are three costs in state government that are growing so fast they threaten our very future.

They remind me of a snowball rolling down a mountain. As it picks up speed, it gets bigger and bigger. And before long, if that snowball isn't stopped, it will turn into an avalanche, and bury anything in its way.

Pension costs have snowballed, doubling over the last five years. This year, we'll pay \$2.1 billion to the pension systems. Next year, we'll pay \$2.6 billion. By Fiscal Year 2010, that number will have grown to \$4 billion.

Medicaid costs are rising so fast, we're paying 10% more each year. In fact, in the last three years, our Medicaid costs have increased by \$2.1 billion.

And the cost of employee health insurance is also growing.

Each year, it costs 11% more to provide insurance for state employees, even though – over the last couple of years – the number of employees has declined dramatically.

Unless we reform the way we fund our pensions, bring better efficiency to Medicaid, contain the cost of employee health insurance, and find ways to continue to reduce the size and sprawl of government, we will never eliminate the structural deficit that takes money away from education, from health care, from law enforcement, from parks, and from everything else we care about.

Some say these budget challenges are so daunting that the only way out is to raise taxes.

A tax increase, they argue, could bring in billions of dollars in revenue, and solve all of our problems.

But I believe that would be a mistake.

It would hurt the economy, cost us jobs, and punish the people.

But let's take a second, and assume for the sake of argument, that we listened to those who want to raise taxes.

Let's assume we took their advice.

Even if we did, but then did nothing to control the cost of pensions, the cost of Medicaid, and the cost of employee health insurance, in a few years, we'd find ourselves right back in the same place we're in today.

And then what do you do? Raise taxes again?

Ladies and gentlemen, the only way to solve this problem is through structural reform.

Reform that helps us both in the short term and the long term.

This year, we face a \$1.1 billion budget deficit.

\$160 million of that amount comes from increased costs for employee health care. \$470 million comes from increased pension costs. Another \$480 million comes from increased Medicaid costs.

Outside of those three areas, our spending matches our revenues.

Some in the media have estimated the deficit to be around \$2 billion.

That figure is inaccurate because the \$2 billion estimate doesn't include approximately \$500 million in federal reimbursement for Medicaid, nor does it include revenue growth of \$575 million, which comes from an upswing in the economy.

And while a \$1.1 billion deficit is a major improvement from the \$5 billion deficit we faced just two years ago, it's still not where we want to be.

Illinois has the largest unfunded pension liability of any state in the nation. What we owe in pension benefits far outstrips the assets we have to pay for those benefits. As a result, every year, we have to dedicate more and more money from the General Revenue Fund, just to cover the cost of our pension contributions.

In 1970, the Illinois constitution guaranteed pension benefits for existing employees. But despite that constitutional guarantee, in every one of the last 35 years, the state has almost never paid everything it was supposed to pay.

And while pension contributions lagged, laws were passed time and time again, that actually sweetened some of these pensions, even though the state wasn't even making the contributions it already owed.

Let me describe this in another way.

Imagine you have a credit card.

Every month, you keep using that card. At the same time, you're not always paying the balance you owe. In fact, sometimes, you even skip a payment or two.

But you keep using that card to buy new things. So what happens? The principal goes up, the interest rate goes up, and the monthly minimum goes up.

Just paying the monthly minimum takes away the money you need to pay the rent, pay for groceries, for clothes, and for everything else.

Now imagine doing this for 35 years.

For the average family, that's a surefire recipe for personal bankruptcy. But unfortunately, it's exactly what the State of Illinois has been doing, year in and year out.

In 1995, the legislature tried to solve the problem by passing legislation to strengthen pension funding. But it didn't work. And after the pension systems lost over six billion dollars on investments, and after six billion dollars in new, unfunded pension benefits passed in the last ten years alone, the situation got even worse.

In fact, it got a lot worse.

In the spring of 2002, Governor Ryan presented an early retirement package. The legislature was told the cost of the pension benefits would be \$600 million. But as it turns out, the real cost to the taxpayers was \$2.5 billion – nearly two billion more in pension benefits than what you were led to believe.

That one mistake alone will take \$280 million out of the General Revenue Fund this year, next year, and every year for the next 10 years. That's money that could have been used to send 88,000 four year olds to pre-school.

In 1995, our state's pension debt stood at \$19 billion. By the time I took office in 2003, just eight years later that number had grown to \$43 billion. At this rate, if we do nothing to stem the tide by the time we're done paying our entire pension debt, we will have paid an earth shattering \$521 billion – including \$220 billion in interest alone. That's \$521 billion not to our schools, not to our hospitals, not to the people in the form of property tax relief, but to pensions.

Now let me be clear, this isn't just a problem that we should address.

This is a crisis that we must solve.

And we'd better solve it now.

Last year, we put together a bipartisan commission of legislators, and leaders from business and labor to study the issue of pension reform. The pension reform plan I'm about to propose comes, in large part, from their recommendations.

I'd like to thank the members of the commission for their hard work. Let me thank Chairman Roland Burris and all the members of the commission.

Now our proposal does not completely mirror the recommendations of the pension commission. In some areas, I felt that some of their ideas went too far, and placed too much risk, and not enough reward, on the men and women who work for our state.

But make no mistake about it, the pension commission is right.

We have to change and reform the way our pension system works.

The ideas I'm about to propose can save our pension systems over \$100 billion over the next forty years. And by reducing the cost of our overall pension obligation, we will reduce the state's costs by \$55 billion over the next forty years. It means we can save \$750 million this year, and even more in recurring savings every year going forward.

In the State of Illinois, there are five retirement systems: the State Employees Retirement System, the State University Retirement System, the Teachers Retirement System, the Judges Retirement System, and the General Assembly Retirement System.

The members of each of these systems receive an annual interest rate of 6% on their contributions. That interest rate is the same for every retirement system except for one.

Some members of the State University Retirement System receive an average interest rate of 9%, regardless of how their investments actually perform. If we bring their interest rate in line with the other retirement systems, we could save \$10 billion over the next forty years.

We also allow some SURS members to take advantage of a little known option where their pension contributions are matched at an unusually high rate. No one in the other pension systems has this perk. If we treated everyone the same, we could save another \$2.5 billion over the next forty years.

Here's another practice that needs reform.

Under the current system, school districts sometimes give teachers, professors and school administrators disproportionately large salary increases in the final years of their career.

The problem is that pension benefits for teachers, professors and school administrators are based on the salary they earn in their final four years of work. So when they receive disproportionately large salary increases at the end of their careers, it's the state that ends up paying a lot more money in pension benefits than it otherwise would.

Now, I believe teachers are underpaid and under-appreciated. But rather than back-loading salaries as they're about to leave the profession, wouldn't it be better to pay them more money throughout their careers? If a local school district or a university wants to award big end of career raises, they still can. But if they do, they should assume the majority of the costs.

Taxpayers across Illinois shouldn't have to pay billions of dollars more in increased pension costs just to cover those end-of-career raises. Capping end of career raises at 3% per year, for purposes of determining the state's share of pension benefits only, would save \$17 billion over the next forty years.

Here's another reform that will save the taxpayers a lot of money. There's a formula that determines pension benefits. It's based on how many years you work in state government and how much money you earn.

Seventy years ago, it was decided, that for police officers in the line of duty, because of the hazards associated with their jobs, and because they do not receive Social Security, they would receive an additional benefit.

It's not hard to understand why.

But over the years, that additional benefit was given to a whole new series of state employees. In fact today, more than one third of state employees now receive these additional benefits.

Every time the state adds a new class of employees to this category, it costs the taxpayers more money.

So I am proposing, that for new hires other than police officers, we return to the original intent of the law.

Any employee who currently has this benefit, would keep it. But going forward, this benefit should go to police officers. Doing that can save \$1.5 billion over forty years.

Most retirement plans start paying full benefits at the age of 65. That includes Social Security. In Illinois, we start paying benefits at the age of 60 if you've worked for the state for 8 years. If you've worked for the state for 30 years, you can retire at the age of 55 and start receiving full benefits.

Under our proposal, for new employees only, if you've worked for the state for 35 years, you would start receiving full benefits at the age of 60. And if you've worked for the state for at least 8 years, you would start receiving benefits at the age of 65. Doing this can save \$5.5 billion over the next forty years.

And finally, we can save \$19 billion by making a single change.

Right now, all state retirees receive an automatic 3% increase on their pensions that's compounded every year, regardless of how the market performs and no matter how much the cost of living actually increases. The number isn't tied to anything, and it's one of the major reasons why our pension costs are so out of control.

A fairer and fiscally responsible approach is to tie the annual cost of living increase to a formula based on the Consumer Price Index.

Now, there are some who would argue that this new rule should apply to all employees who currently work for the state. This, of course, would save the state even more money.

But I have a different view.

If you took a job in state government expecting you would receive this benefit, then you should receive this benefit. That's part of the deal you signed on for.

But for new hires, that's a different story. There's no reason to continue a practice that's driving our pension systems to the brink of bankruptcy. For new state employees, when they retire and start receiving their pensions, I propose that their annual increase should better reflect what the cost of living actually is. Seventeen states already use the model we're proposing.

This approach is fair to the employee, fair to the taxpayers, and it will save us \$19 billion.

The final pension reform I'm proposing is very simple. In the future, we should stop awarding new pension benefits without a dedicated way to pay for them.

This is a structural reform as basic as the concept that when you want to buy something, you make sure you have the money to pay for it. Adopting this reform will keep us from finding ourselves in the same place we're in now.

The pension problems we face are not unique to Illinois. Other states are dealing with these problems too. And a lot of other states are dealing with them in ways that are different from what I propose we do.

Take California for example.

Governor Schwarzenegger is proposing that state employees switch to a system called defined contribution. Under defined contribution, pension benefits are placed in a 401(k) plan and are linked to how the market performs.

So if the market does well, your pension benefits will grow. But if the market tanks, you're out of luck.

Now I'm a big fan of Arnold Schwarzenegger. I admire a lot of what he's doing in California. He's a champion for reform in a state that historically has been on the cutting edge of progressive change in American history.

I like a lot of his proposals. But I don't agree with his proposal to switch everyone to a defined contribution system.

I don't think it would be prudent to force state employees and retirees to rely solely on the performance of the market for their retirement benefits. It's too risky. Pensions are about security. We should invest them carefully and conservatively.

I know there are some people here who are going to make a strong push to move Illinois to a defined contribution system. Others, like the pension commission, argue that state employees should pay more towards their pension benefits. And still others argue we should raise the retirement age for all state employees to 65 just like Social Security.

On the other hand, there are those who would rather not see any changes to our pension systems at all. They want to keep things the way they are. But maintaining the status quo and being afraid to tackle this issue won't make it go away. It will only make it worse.

If we don't deal with the problem now, when the state finally does deal with it, the solutions will be far less reasonable than the changes we're proposing. We look forward to sitting down with our friends in labor over the coming weeks and months to help us solve this problem. Because this problem has to be solved.

I believe the proposals I've outlined today are fair, reasonable, and responsible. They are designed to link benefits to present day reality. These changes are necessary to avert a looming crisis. And they are far preferable to watching the state one day go broke as we struggle and fail to pay our pension contributions.

I am asking you to join me in making these changes. However, making the structural changes our system needs means more than just reforming our pensions.

Each year, Medicaid costs increase by nearly 10%. They increase because the cost of providing health care to people who need it keeps going up.

I believe that health care is a right. Making health care available and affordable to as many people as we can has been a priority of my administration. And when it comes to providing health care for more people, Illinois has advanced, while other states have retreated.

I want Illinois to keep advancing.

But doing that is going to be increasingly difficult if we don't reign in the costs of delivering health care services through Medicaid.

The cost of Medicaid is so great that some states are dealing with their budget problems by actually kicking people off of health care.

This year, 15 states have been forced to take away health care from people to balance their budgets. We can't let that happen here.

But as we invest more money, and give more people access to health care, we have to find ways to make providing health care less expensive.

One way to save money is to reform the Medicaid system.

If we do things like treat Medicaid patients more like we treat people with private health insurance, work with doctors to prescribe more generic medicines, and keep hospital payments at current levels, we can provide health care to the same number of people, and save money for the taxpayers.

We can also save money by taking advantage of the new federal prescription drug benefit.

Last year, the federal government passed a new Medicare prescription drug law. Some states are switching their entire prescription drug coverage for seniors under their Medicaid program to the new federal program.

This means the federal government assumes their costs, which certainly helps states with their budgets. But the problem with that approach is that under the new federal Medicare prescription drugs program, too many senior citizens fall through the cracks.

It would be foolish not to let the federal government pay for medicine they now cover. That will save us a lot of money.

But at the same time, we can't let gaps in the federal program impact our senior citizens here in Illinois.

We must leave no senior behind.



And leaving no senior behind means providing a safety net.

Under the federal program, if there is an increase in out of pocket spending for seniors – the State of Illinois will make up the difference.

By protecting our seniors from the shortfalls in the federal program, senior citizens in Illinois will not face the same problems as senior citizens in other states. And the good news is, even with this safety net, the State of Illinois will save \$26 million in this year's budget, and more than \$50 million next year.

Medicaid isn't the only area where health insurance has become a skyrocketing cost. The third obstacle standing in the way of fiscal stability is the high cost of employee health insurance.

Over the last four years, the cost of providing health insurance for state employees has grown by 11% each year.

Here's a perplexing fact.

When a state employee visits the doctor or a hospital, he is actually charged an average of 45% more for the same treatment as an employee from the private sector.

How can that be?

There are more than 59,000 state employees who, from time to time, visit doctors or may need to be treated in hospitals. We're good customers. And there's a lot of us.

Why are state employees being charged more than employees from the private sector?

I'm directing the Department of Public Aid to get the State of Illinois a better deal. Go back to the bargaining table. And get us a payment rate that's more in line with what everyone else pays. Doing this could save the State of Illinois up to \$45 million each year.

I'm not only directing Public Aid to get us a better deal, we're going even further. We are consolidating all health care purchasing by the state – whether it's for Medicaid, corrections, employee health insurance, or anything else – into the Department of Public Aid. By doing this, we can make sure that we're using all of our buying power, whether we're negotiating with insurers, hospitals, or drug companies, to save money, and give people better health care.

We can save another \$15 million a year by requiring retirees who are eligible for the new federal prescription drug benefit to take advantage of it. The retirees will still have the benefits they need from the state, but there's no reason for us to pay for something the federal government will pay for.

The reforms I just outlined, from pensions to Medicaid to employee health insurance are important, and they will help us save over \$900 million. They will help balance our budget this year and give us the opportunity to keep moving our state forward. But they're even more important because if we do not make these changes, we face a long-term fiscal catastrophe that will cripple our state and jeopardize our future.

This year's budget offers an opportunity to bring long-term fiscal stability to Illinois.

The first two years of my administration focused on getting our arms around an unprecedented fiscal crisis and doing it in a way that moved Illinois forward and didn't raise taxes on the people.

We did it by taking all of the steps we could to quickly reduce the size of government. We reduced the size of the workforce. We cut spending. We consolidated functions and agencies. We renegotiated contracts. We eliminated unnecessary office space. We reduced the size of the fleet. We centralized purchasing.

We've taken as many steps as we could – because in every place we can, we're trying to run government more like a business.

And after doing all of that, we are now in a position to go even further in bringing structural change by taking on the cost of pensions, the cost of Medicaid, the cost of employee health insurance, and by continuing to adopt new practices that will lead to a more efficient and effective government.

I think there are four ways we can make government more efficient and more effective: make sure we don't spend money we don't have, consolidate our assets into one place, question whether we need to do everything we currently do, and discontinue the practice of the unexamined spending of taxpayer money.

Now, there are a lot of people who think that more revenue would solve all of our problems. Revenue in this fiscal year will be more than \$25 billion.

I'll be the first one to tell you it would be nice to have a little extra money.

But our real problem isn't the lack of revenue – it's the uncontrolled growth of spending in areas of government that have literally taken on a life of their own. That kind of uncontrolled spending is what runs up deficits.

And one way to control spending is to adopt a system of pay as you go.

The idea is really very simple.

If any of us propose new spending – whether it's the Governor, members of the legislature, constitutional officers, or anyone else – we should identify how we're going to pay for it. Is there a dedicated revenue source? Is there a corresponding spending cut? Where is the money going to come from? What are we going to do to make sure the numbers all add up, so the red ink stays dry?

Nine other states already do this.

It's what most families do when they balance their own checkbooks.

And it's too bad we didn't have a rule like this in place when all of the pension sweeteners were granted, because if it had been, our pension problems wouldn't be nearly as bad as they are now.

We should all want to hold the line on unnecessary and unaffordable spending. Adopting a pay as you go system is the responsible way for our government to operate. And it's a responsible way to treat the taxpayers' money.

Another way to be responsible with the taxpayers' money is to look at the major costs we face each year, and try to find long-term solutions to contain them.

One example is the cost of crime.

Every time a crime is committed, the people of Illinois pay in a number of different ways: from the terrible human costs placed on victims and their families, to higher prison costs, to higher law enforcement costs, to the deterrent effect crime has on the economy.

Right now, nearly 55% of prisoners end up right back in the prison system. This year, 42,000 inmates will be released from prison. And unless we do something, more than half will be right back in the system within three years.

We spend \$21,000 each year to house an adult inmate in our prison system. At that rate, the returning 20,000+ prisoners the statistics tell us the state is about to get reacquainted with will cost us \$420 million each year. But far worse than that, in between prisons stays, they're out there, committing more crimes and hurting more people.

One of the best ways to fight crime is to keep people from committing crimes.

In 2004, we re-opened the Sheridan Correctional Center as a national model drug-treatment prison. 950 prisoners are receiving drug treatment and job training that they would not otherwise receive. So far, the results are promising. It's still early, but the rate of recidivism is down 55%. We need to replicate that success throughout the entire prison system. That's why I'm convening a group of civic leaders and elected officials from across Illinois to look at the prison system and develop ways to reduce recidivism.

It could take the form of increased educational opportunities like getting a GED. It could take the form of providing more job training.

We've spoken with a number of people who are interested in participating. They come from a broad spectrum, ranging from Reverend Jesse Jackson to Peoria County State's Attorney Kevin Lyons. I'm sure there are many in this chamber who might be interested in working on this issue. We are interested in working with you.

In order to build on our success of reducing the size of government and saving the taxpayers money, we need to keep asking questions. For example, do we really need as many state agencies as we have right now?

We've already seen the benefits of consolidation fewer administrative costs, greater efficiency, better coordination all helping to save taxpayers money.

So far, we've consolidated nearly twenty agencies and departments. But I think we can do even more.

I'm going to ask our working group to look at how many agencies we need and see how far we can go.

And speaking of consolidation, consolidating functions within state government to bring greater efficiencies shouldn't stop with state agencies.

We're one state. One government.

And yet we have 650 special purpose funds.

Special purpose funds are created to help a special purpose and their intent is good. The problem is they serve limited interests, not the broad public interest.

Right now, they exist with a collective surplus, and each year, many of them generate even more surplus revenue.

That's money we could invest in our schools.

We should pool the balances of the special purpose funds and use whatever the funds don't need to help our schools. Each special purpose fund would perform the exact same functions it does now. Each fund would have the same name and same purpose. And each fund would have the money it needs, plus a reserve of extra money just in case.

I propose we create the School Endowment Fund, and invest \$420 million in it. Every year, for the next three years, we'll have \$140 million in new, recurring revenue that we can count on for schools. And after three years, a new surplus balance will have built up, and that money can go to our schools as well. By doing this, we're creating a new, recurring source of revenue for our schools. And I propose for the first time ever, we dedicate recurring revenue into early childhood education.

Our proposal would not apply to funds like the road fund, bond funds, pension funds, and others. Using the existing, unneeded balances of the special purpose funds is a way to use our existing resources to help our schools. I know it took decades to create all of these funds. I know each fund has its supporters, and that some will not want to see the surplus go to schools. But in tough times, you have to set priorities. And our priority is education.

And while we're on the topic, I'd like to say a few words about school funding.

I'm proud to say that in the last two years, we've given our schools a lot more money.

In fact, over the two years of my administration, we've invested \$1.1 billion in new school funding. We've invested more money in education these last two years – despite historic budget deficits – than my predecessor did in the first two years of his term – despite a booming economy – and more money than his predecessor did in the first five years he was in office. And after this year, education spending will have increased by more than \$2 billion from when I first took office.

Before we started investing more money in our schools, almost 80% of school districts operated in deficit spending. Just one year later, with the help of our investments, the number of school districts operating in deficit spending fell to 45%.

That's an incredible change in just one year.

I oppose raising the income tax. I support investing more money in our schools.

We've increased school funding by making education our number one spending priority. We squeezed the system as much as we could. We made cuts elsewhere, cuts that were not easy to make. But we made them because the money we spend on children is the best money we spend. Many of you here support raising the income tax to provide more funding for schools. I applaud your commitment to the schoolchildren of our state. I respect your work. I respect your view. And I agree with you that there's an over-reliance on property taxes to fund schools. The state should pay a larger share, and that's why we've been investing more money in the foundation level in the two years I've been Governor.

But keep in mind, any proposal that swaps income taxes and property taxes still wouldn't mean more total funding for schools unless taxes go up more than they go down.

That approach puts the hard choices right back on the taxpayers. It makes them choose between putting away money for college or paying the mortgage. It makes them choose between buying new clothing for their children or putting more savings away for their retirement.

State government may be having tough financial times, and some school districts may be having tough financial times, but many of the working families of Illinois have experienced tough financial times too. They've been making hard choices. We signed up for our jobs to make sure their hard choices don't get any harder.

I know that if we don't raise income and sales taxes, we will have to make more difficult decisions, but that's what we're supposed to do. If we stay the course and keep making the tough choices, we can continue to help our schools without placing the burden on the people we serve.

We need to pass a capital bill.

We need to build more roads, more schools, more facilities for our universities, and we need to help the CTA and mass transit across the state.

We can do all of that. We can build roads. Build schools. Put people to work. We can create opportunity all around Illinois – in Southern Illinois, in Central Illinois, in Rockford and Rock Island.

A capital bill will help us do that.

It will help us do things like construct the Technology Boulevard in Peoria and improve the Peoria Port District.

Develop projects like the EIGERlab in Rockford and the Rockford Airport.

Projects like the Fifth Street Road Extension in Lincoln and the IL 173 Interchange Project in Machesney Park.

Projects like Illinois Route 2 in Rockford and the new Western Illinois University-Quad Cities Campus.

Projects like the Galena Bypass and widening Illinois Route 13 to 6 lanes.

Projects like building an interchange on I-57 in Coles County and a bridge on I-55 in Madison County.

Projects like bringing a new minor league baseball team to Illinois – by building a baseball stadium in Marion. Projects like the Technology Education Center at Southern Illinois University.

Projects like renovating the Science Building at SIU's Edwardsville campus and Governor's Parkway in Edwardsville.

Projects like Route 4 in Sparta and US Route 67 in Jerseyville.

Projects like the US 34 Extension in Monmouth and the Route 336 Western Bypass in Macomb.

Projects like the US Route 67 Improvement in Rushville and expanding US Route 51 in Decatur.

Projects like extending US 67 from Jerseyville to Carrollton and building the Brush College Road Subway in Decatur.

As we open the nation's best Presidential Library and Museum this April, let's redevelop the capitol complex surrounding it.

Let's support projects that not only improve state facilities like the Stratton Building, but let's beautify the entire capitol complex and help make downtown Springfield everything it could be. Projects like adding four lanes for US Route 50 in Richland County and building "Outerbelt West" in Effingham.

Projects like supporting the new Engineering Building at the University of Illinois and extending 4th Street in Champaign.

Projects like building the Crop Processing Lab at the University of Illinois and funding the Rare Isotope Accelerator Science Center at Argonne National Labs.

Projects like Northwestern's Nanoscale Science and Engineering Center and the Pfizer Lab Redevelopment in Skokie.

Projects like improving the Illinois 60 Townline Road in Lake County and funding CREATE in Chicago so we can expand the railroad industry.

Projects like funding new construction for museums and cultural institutions to promote tourism and help our economy.

Projects that you and the legislative leaders may think are important. I'm for these projects – and I'm for a lot more.

We need a capital bill to build more roads, help our universities, and we need a capital bill so we can build more schools.

A recent report from the Capital Development Board says our schools need more than \$6 billion in new construction. Some schools have more kids than they have space. Other schools are so old, they're crumbling.

And we need a capital bill to clean up our environment. We owe it to ourselves and we owe it to our children.

That's why I support earmarking 10% of any capital bill you authorize for projects that help the environment. Projects like cleaning up contaminated sites at Lake Calumet, reducing emissions from school buses in Rockford, improving water quality across the state through the Conservation Reserve Enhancement Program, or extending the Brownfields program in areas like Aurora, South Cook County, and the Quad Cities.

However, none of this is possible without a dedicated revenue source to pay for it.

That's the responsible way to fund construction.

And here's how we can pay for it.

There's no single voluntary act that causes more damage, more destruction, and more health care costs than smoking. If we raise the cigarette tax by 75 cents and raise the tax on cigars, we can generate over \$150 million each year in revenue.

We can use that money to pay the debt service on a capital bill. We can also use a portion of that money to provide more health care to people who need it in the form of KidCare and FamilyCare. Raising the cigarette tax will help provide more health care to people who need it. I want to help the CTA. I hope you do too. I want to help the CTA avoid service cuts and I'm for helping mass transit across Illinois.

In this budget, I propose that we close two loopholes. One would help the CTA and other mass transit. The other would help restore cuts at the Department of Natural Resources.

When it comes to mass transit, everyone here has an interest. If you're from Chicago, you probably want to help the CTA avoid service cuts. If you're from downstate, you want more mass transit options. If you're from the suburbs, you want to protect your mass transit funding. But we can't spend money we don't have.

That's why I propose we close the canned software loophole and use that money for mass transit. The canned software loophole differs from every other loophole or tax incentive on the books, because in this case, we're competing against ourselves.

Illinois is the only state in the nation with the canned software loophole. In Illinois, there are a handful of big corporations who don't pay sales tax on computer software. Individuals do. And so do the 650,000 small businesses across Illinois.

Giving a tax break like that to a handful of big companies with big connections puts 99% of businesses in Illinois at a competitive disadvantage. This is a special interest loophole that's unfair to the working people of our state and unfair to the small businesses of our state. We should close that loophole and use the money to help the CTA and help mass transit across Illinois.

We also need revenue to fund more conservation programs.

I support a recommendation from Lt. Governor Pat Quinn to close the tax loophole on landfill gas. If we close this loophole, we could use the revenue to fund conservation programs and restore some of the reductions at the Department of Natural Resources.

So if you're serious about restoring funding to the Department of Natural Resources, here's a way to do it.

Now I've proposed a number of far-ranging reforms today. Pension reform. Medicaid reform. Employee health insurance reform. And spending reform. In total, they represent a roadmap to fiscal solvency.

They represent a way to make sure we stop spending money we don't have, stop paying for things we can't afford, and start setting the right priorities that put the taxpayers first. If we embrace this plan, we can meet our obligation to state employees and to people who need health care, and we can end the cycle of structural deficits, without forcing the hardworking people of our state to pay more in taxes.

And if we embrace this plan, we can give the people of Illinois a budget they can believe in.

A little while ago, I asked you to pass the Pay As You Go Act.

So let me practice what I preach and sum up for you how our budget for Fiscal Year 2006 works and how we pay for it.

Our pension, Medicaid, and employee health insurance reforms would save over \$900 million this year. Our reforms would save the pension systems more than \$100 billion over 40 years. The \$900 million in savings, along with spending cuts at Central Management Services, better tax enforcement, and more federal revenues would be used to eliminate the deficit.

We can provide \$140 million in recurring revenue for schools by using the unneeded surplus balance sitting in our special purpose funds.

We can build roads and schools, clean the environment, and provide health care for 56,000 more men, women and children by raising the tax on cigarettes and cigars.

We can provide new funding for mass transit and bail out the CTA by closing the canned software loophole.



We can increase funding for conservation and restore cuts to the Department of Natural Resources by closing a loophole on landfill gas.

And we can do all of this – balance the budget, eliminate the deficit, invest more in schools, provide health care to people who need it, build roads, build schools, clean the environment, and fund mass transit – all of this – without raising fees – without raising the corporate income tax – without raising the personal income tax – and without raising the sales tax.

That has been the philosophy behind each of our budgets: five simple points.

Don't raise the income tax.

Don't raise the sales tax.

Invest more in schools.

Invest more in health care.

And reduce the size and cost of government through major structural reform.

By working together, we've been able to achieve just that – we've changed priorities and reformed the way government operates.

And now we find ourselves at a seminal moment. It's time to choose.

Do we continue to shake up the system and bring fundamental change to state government? Or do we allow ourselves to slide back into the old ways of waste, inefficiency and misplaced priorities?

I want us to keep moving forward.

The progress we've made over the last two years couldn't have happened without you. The progress I want to make can only happen with you.

What I'm asking all of us to do is not easy. It's hard.

It means making tough choices. It means having the courage to say no to friends.

But it's necessary. And it's the right thing to do.

Let's put aside the politics – and trust the people. Let's embrace the unique opportunity we all have: take the heat and make the hard and difficult decisions – knowing that we're doing it – to make things better for people.

The people of Illinois expect us to change things. They need our best work. It is for them that we are here. For their families, their loved ones, their jobs, their futures, their hopes and their dreams.

Thank you. God bless the people of Illinois. God Bless the United States of America.